
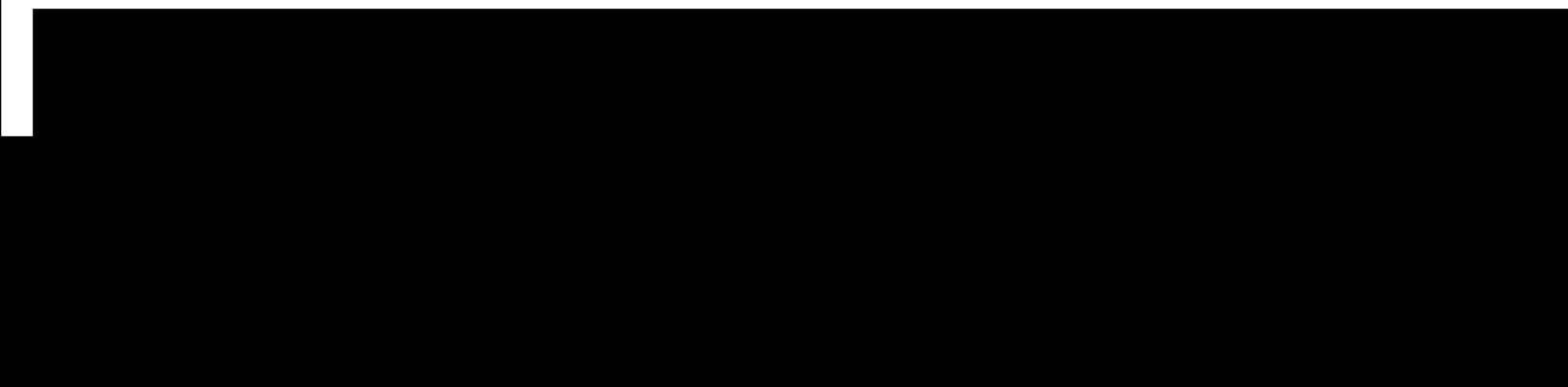

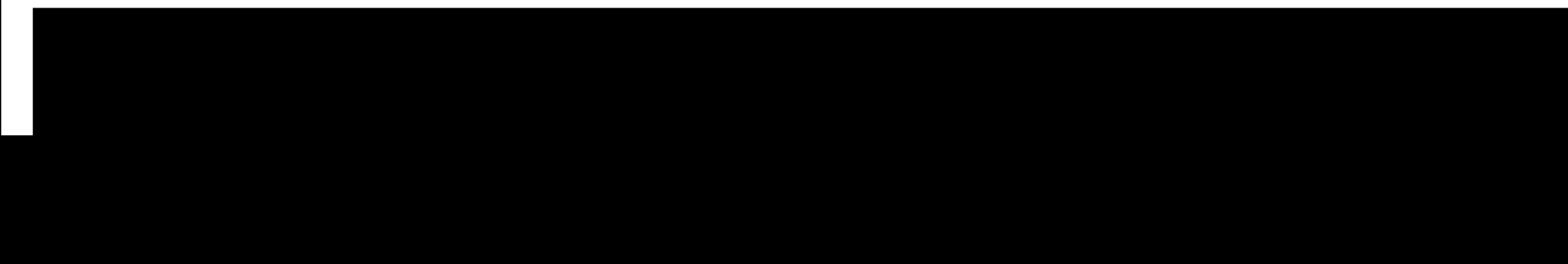


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Soviet Trade With Eastern Europe In 1970

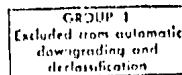
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1970

INTELLIGENCE MEMORANDUM

Soviet Trade With Eastern Europe In 1970

Introduction

The USSR has recently concluded trade protocols with its East European trading partners for 1970, the last year of the current five-year plan period (1966-70). This memorandum traces the development of Soviet-East European trade during this plan period, examines certain trends in commodity composition, and assesses future prospects.

Background

1. The USSR conducts well over half of its foreign trade with the countries of Eastern Europe. Since 1966* this trade has increased at an average rate of 10% annually (see Table 1).

* The year 1966 -- the first year of the current five-year trade agreement period -- is used as a base rather than 1965 because there was a significant reduction in intra-CEMA prices primarily for raw materials. As a result, Soviet exports to CEMA countries in 1966 increased 10.4% in volume, but only 3.6% in value; on the import side, the physical index dropped 3.2%, against a 4.4% decline in value.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.

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Table 1

Soviet Trade Turnover with Eastern Europe

Country	Million US \$				
	1965	1966	1967	1968	1969 ^{a/}
Bulgaria	1,204	1,351	1,536	1,841	1,940
Czechoslovakia	1,961	1,813	1,950	2,028	2,222
East Germany	2,648	2,644	2,829	3,112	3,333
Hungary	1,061	1,016	1,183	1,344	1,438
Poland	1,507	1,536	1,815	2,082	2,330
Romania	844	792	819	873	934
<i>Total ^{b/}</i>	<i>9,225</i>	<i>9,154</i>	<i>10,131</i>	<i>11,280</i>	<i>12,197</i>

a. Preliminary.

b. Because of rounding, components may not add to the totals shown.

The rapid increase in Soviet trade with Eastern Europe has been largely a result of the growth of trade with Poland, Bulgaria, and Hungary. Soviet trade with these three countries increased on the average by 15%, 13%, and 12%, respectively, during 1967-69. As a result of this substantial growth, the Soviet share in total East European trade went from 37% in 1966 to an estimated 40% in 1969. The trend of the early 1960s, when the importance of the USSR in East European trade was diminishing, has been reversed.

2. This change has occurred despite the fact that the USSR accounted for about the same proportion of the trade of Czechoslovakia and East Germany in 1969 as it did in 1966 and for less of Romania's trade (see Table 2). In Czechoslovakia, economic difficulties following the Soviet-led invasion in 1968 have contributed to a slowdown in exports to the USSR. However, the longstanding problems in trade relations between the two countries, including the Czechoslovak reluctance to accelerate imports of Soviet machinery and equipment and Soviet reluctance to increase exports of raw materials, probably were more significant. The

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Table 2

Soviet Share of East European Trade

Country						Percent
	1965	1966	1967	1968	1969	a/
Bulgaria	51	49	51	53	b/	56
Czechoslovakia	37	33	35	34		34
East Germany	43	41	42	42		41
Hungary	36	33	35	37		38
Poland	33	32	35	36		37
Romania	39	34	28	29		28

a. Preliminary.

b. Estimated.

decline in the Soviet share of Romanian foreign trade has been a result of Romanian policy to expand trade with the West. Soviet trade with East Germany has increased substantially, but has just kept pace with the increase in East Germany's total trade.

Trends in Commodity Composition

3. Although the USSR has further expanded its role as the chief supplier of goods to Eastern Europe, there have been noticeable changes in the composition of Soviet exports to that area. For example, the traditional exports of fuels and raw materials -- coal, coke, crude oil, oil products, iron ore, ferrous metals, and cotton -- have declined from about 43% of the value of Soviet exports to Eastern Europe in 1965 to less than 37% in 1968.* This trend has developed in spite of increased deliveries (see Tables 3 and 6).

4. The declining share of Soviet deliveries of raw materials reflects changes in demand for

* In 1966, the first full year reflecting CEMA price changes, these raw materials accounted for about 41% of Soviet exports to Eastern Europe. Data on the commodity composition of Soviet foreign trade in 1969 are not available.

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Table 3

**Soviet Exports of Selected Raw Materials and Fuels
to Eastern Europe**

<u>Commodity</u>	<u>Million Metric Tons</u>				
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969 a/</u>
Coal	13.9	13.4	12.6	10.6	N.A.
Coke	2.7	2.8	2.7	2.9	N.A.
Crude oil	18.3	21.0	22.6	27.3 a/	30.0
Oil products	4.1	4.3	4.9	5.1 a/	4.5
Iron ore	22.8	24.0	26.0	28.7	31.0
Pig iron	1.8	2.1	2.3	2.9	N.A.
Rolled steel	3.6	4.0	4.1	4.2	N.A.
Cotton	0.33	0.34	0.31	0.34	N.A.

a. Estimated. Official Soviet data for 1968 do not list crude oil and oil products separately.

some of these items in Eastern Europe as well as the reluctance and/or inability of the USSR to satisfy Eastern Europe's growing appetite for such commodities. For example, the gradual long-term changeover from a solid fuel to a liquid fuel base in Eastern Europe -- as shown by increased Soviet deliveries of crude oil -- is reducing the demand in these countries for Soviet coal. Similarly, deliveries of iron ore pellets and pig iron are offsetting the slower growth in deliveries of low-grade Soviet iron ore. The extent to which Soviet deliveries of iron ore substitutes, crude oil, and metallurgical products in general can be increased, however, is limited by the growing internal demand for such items in the USSR itself and by certain constraints on supply. Consequently, the East European countries have begun to look to other sources, chiefly the Free World less developed countries, to meet the growing demands for their petroleum and metallurgical industries.

5. In contrast to the trends in raw material exports since 1965, Soviet deliveries of machinery and equipment to Eastern Europe have grown more than twice as fast as total Soviet exports to this area. As a result, this category has substantially

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increased its share of total Soviet exports to that area, from 17% to almost 22% (see Table 4). The growth is a result primarily of Soviet pressure on Eastern Europe to take more Soviet machinery. The growth in exports of machinery was particularly important in the expansion of trade with East Germany, where machinery accounted for 86% of increased Soviet exports during 1966-68. Bulgaria, however, remains the largest market in Eastern Europe for Soviet exports of machinery and equipment.

Table 4

Soviet Exports to Eastern Europe a/

Country	Total Exports		Machinery and Equipment		Percent of Total Exports	
	Million US \$					
	1965	1968	1965	1968	1965	1968
Bulgaria	588	949	250	416	42.4	43.9
Czechoslovakia	926	1,038	131	199	14.2	14.3
East Germany	1,363	1,506	106	230	7.8	15.3
Hungary	596	675	110	138	20.2	20.5
Poland	727	1,050	109	179	15.0	17.0
Romania	403	417	80	118	19.9	28.2
Total	4,553	5,636	787	1,230	17.3	21.8

a. Because of rounding, components may not add to the totals shown. Percentages were derived from unrounded data.

6. The USSR, however, continues to be a net importer of machinery and equipment in trade with Eastern Europe -- with imports of \$2.5 billion, more than twice its exports of \$1.2 billion in 1968. Soviet imports of machinery and equipment have averaged roughly 44% of total Soviet imports from Eastern Europe during 1965-68, with some changes in the mix, however. The share of equipment for the light and food industries in Soviet imports was increased, as was that of ships and marine equipment -- although the share of transportation

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equipment as a whole declined. Soviet imports of chemical plant and equipment from Eastern Europe developed unevenly, with a tendency to decline in importance over the period. In contrast, Soviet imports of consumer goods, especially nonfood items, increased more rapidly. They moved up from about 25% of Soviet imports from Eastern Europe in 1965 to roughly 30% in 1968 (see Table 7).

Outlook for 1970

7. Trade agreements concluded between the USSR and the six East European countries for 1970 -- the last year of the current five-year agreement period -- indicate that Soviet trade with Eastern Europe is planned to increase by roughly \$900 million (see Table 5) and will amount to approximately \$13.1 billion. This planned increase represents a slowdown in relative terms compared with last year's trade -- 7% as against an estimated 8% in 1969 -- but in absolute terms the growth is about the same as in 1969.

Table 5

Soviet Trade Turnover with Eastern Europe

Country	Value in Million US \$		Percent Increase
	1969 ^{a/}	1970 ^{b/}	
Bulgaria	1,940	2,000	3
Czechoslovakia	2,222	2,444	10
East Germany	3,333	3,571	7
Hungary	1,438	1,529	6
Poland	2,330	2,563	10
Romania	934	980	5
<i>Total c/</i>	<i>12,197</i>	<i>13,087</i>	<i>7</i>

a. Preliminary.

b. Planned.

c. Because of rounding, components may not add to the totals shown.

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8. The projected growth in trade with Bulgaria of 3% is far below the usual annual increases in this trade and is probably understated. In the past, trade has grown by at least 10% per year. Moreover, the Chairman of the Bulgarian State Planning Committee stated in December that the USSR will increase its share to more than 60% of Bulgarian trade in 1970 compared with 56% in 1969. The 10% increase scheduled for Soviet-Czechoslovak trade is consistent with the redirection of Czechoslovak trade toward the Communist countries and particularly with Czechoslovakia's increased dependence on the USSR. Moreover, current Czechoslovak economic difficulties may generate Soviet deliveries not now anticipated. Scheduled percentage increases for both Poland and Hungary are lower than in recent years, but in absolute terms are consistent with those registered earlier.

9. If 1970 plans for trade are more or less fulfilled, the USSR will account for an even greater share of both Czechoslovak and Polish trade than in 1969 and probably a larger share of Bulgarian trade as well. The Soviet share of Hungarian and East German trade will be roughly the same as in 1969 and apparently it will be a still smaller part of Romanian trade.

10. No basic change is expected in the traditional exchange of Soviet raw materials, fuels, food, and machinery for East European machinery and consumer goods. The USSR is expected to continue its policy of increasing exports of machinery and equipment to Eastern Europe as well as importing larger amounts. The USSR apparently will also honor its long-term commitments to deliver specified quantities of raw materials to Eastern Europe. Thus exports of crude oil will rise to about 34 million tons, up from an estimated 30 million tons in 1969. Exports of iron ore are expected to increase from an estimated 31 million tons in 1969 to 33 million tons in 1970. The USSR also is maintaining a large volume of grain deliveries to East Germany, Czechoslovakia, and Poland, thereby reducing what these countries would have to import from the West for hard currency. Other unanticipated deliveries to Eastern Europe might be necessary, but it is unlikely that there will be any above-plan exports of crude oil, for example, because of limited availability in the USSR.

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CONFIDENTIALFuture Prospects

11. No major departures are anticipated from the recent trends in Soviet trade with Eastern Europe or in the trends in the commodity composition of that trade. Their mutual exchanges will continue to reflect the dependence of Eastern Europe on Soviet products, particularly raw materials and fuel, and on the Soviet market for products which are uncompetitive in the West. Hence, Eastern Europe will continue to conduct a significant share of its trade with the USSR. The Soviet economic role in Eastern Europe has its costs, which the USSR seems willing to assume. Thus the USSR has stepped in to restore order to Bulgaria's hard currency trade and apparently will continue to exercise some degree of control over it. This control reportedly will cost the USSR about \$35 million in scarce hard currency this year. Some Soviet hard currency assistance to Czechoslovakia also is expected in 1970, and other types of short-term Soviet economic assistance for the Czechoslovak economy might be necessary.

12. In spite of some de-emphasis of exports of raw materials and fuels to Eastern Europe and Soviet determination to expand exports of machinery and equipment to that area, raw materials will continue to be the mainstay of Soviet exports to Eastern Europe. Increased East European imports of fuels and raw materials from other sources should not significantly diminish dependence on Soviet supplies. The long-term trend of increased Soviet imports of East European machinery and consumer goods shows no sign of a downturn, and barring significant improvement in the quality of these goods, Eastern Europe has few alternative markets.

Conclusions

13. Since 1966 the USSR has increased its trade with Eastern Europe at an average annual rate of about 10%, and its share of East European trade has moved upward. These developments reflect largely the substantial increases of Soviet trade with Poland, Bulgaria, and Hungary. Trade with Czechoslovakia and East Germany has remained at about the same level in 1969 as it was in 1966, and the Soviet share of Romanian trade has declined.

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The lag in growth with Czechoslovakia has resulted more from basic problems in trade relations than from the Soviet invasion. In the case of East Germany, the substantial Soviet increase in trade has just kept pace with the increase in total East German trade. The decline in the Soviet share of Romanian trade has been a result of Romanian policy to expand trade with the West.

14. The USSR continues as the principal supplier of goods to Eastern Europe, but the composition of these exports has been changing. Soviet exports to Eastern Europe of traditional raw materials and fuels declined from about 43% of the value of such exports in 1965 to less than 3% in 1968 as the result both of changes in demand for some of these commodities in Eastern Europe and of Soviet reluctance and/or inability to satisfy Eastern Europe's increasing needs for others. Consequently, the East European countries have had to look to other sources for these items. In contrast to the trends in raw material exports, Soviet exports of machinery and equipment to Eastern Europe have grown more than twice as fast as total Soviet exports to that area. This growth has resulted principally from Soviet pressure on these countries.

15. The USSR is still a net importer of machinery and equipment from Eastern Europe, with these imports staying at about 44% of total imports from Eastern Europe in the period 1965-68. During this period the mix in this category did change, with the percentage of equipment for food and other light industries increasing, transportation equipment declining despite a rise in deliveries of ships and marine equipment, and chemical plant and equipment developing unevenly but tending to decline in importance. Consumer goods increased their share, going from about 25% of Soviet imports from Eastern Europe to about 30%.

16. Soviet trade with Eastern Europe in 1970 -- as indicated by recent trade agreements -- will increase by about \$900 million, a slowdown in relative terms (from 8% in 1969 to 7%) but about the same as in 1969 in absolute terms. No basic changes in the trends and commodity composition in Soviet-East European trade are anticipated for the foreseeable future. The continued East European dependence on the USSR both for raw materials and as a market for products which are not competitive in the West will contribute to the maintenance of Soviet hegemony over Eastern Europe.

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Table 6
Commodity Composition of Soviet Exports
to Eastern Europe a/

	1965		1968	
	Million US \$	Percent	Million US \$	Percent
<i>Total</i>	4,552.6	100.0	5,636.1	100.0
Machinery and equipment	786.6	17.3	1,230.1	21.8
Transportation equipment	160.9	3.5	393.9	7.0
Fuels, lubricants, and related materials	754.8	16.6	823.9	14.6
Coal and coke	265.3	5.8	204.0	3.6
Petroleum and products	469.6	10.3	566.6	10.1
Ores and concentrates, metallic	271.2	6.0	296.0	5.3
Iron ore	242.7	5.3	273.6	4.9
Base metals and manufactures	928.0	20.4	1,041.9	18.5
Ferrous metals	717.7	15.8	765.6	13.6
Pig iron	106.3	2.3	136.7	2.4
Rolled ferrous metals	510.1	11.2	519.6	9.2
Nonferrous metals	210.4	4.6	276.3	4.9
Chemicals	123.2	2.7	171.3	3.0
Wood and wood products	186.0	4.1	249.4	4.4
Lumber	100.5	2.2	112.7	2.0
Textile raw materials	321.7	7.1	305.5	5.4
Cotton fiber	255.0	5.6	257.7	4.6
Consumer goods	424.3	9.3	575.3	10.2
Grain	200.3	4.4	276.9	4.9
Manufactured consumer goods	71.3	1.6	103.6	1.8
Other	112.0	2.5	162.5	2.9
Unspecified	644.8	14.2	780.2	13.8

a. Because of rounding, components may not add to the totals shown.

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Table 7

Commodity Composition of Soviet Imports
from Eastern Europe *a/*

	1965		1968	
	Million US \$	Percent	Million US \$	Percent
<i>Total</i>	4,672.6	100.0	5,643.6	100.0
Machinery and equipment	2,113.7	45.2	2,508.9	44.5
Equipment for light and food industry	181.4	3.9	250.1	4.4
Equipment for chemical industry	97.7	2.1	104.0	1.8
Transportation equipment	729.4	15.6	847.7	15.0
Railroad rolling stock	295.4	6.3	264.4	4.7
Ships and marine equipment	290.9	6.2	385.5	6.8
Fuels, lubricants, and related materials	189.5	4.1	160.4	2.8
Coal and coke	119.5	2.6	122.0	2.2
Petroleum products	70.0	1.5	38.4	0.7
Ores and concentrates, metallic	144.6	3.1	124.7	2.2
Base metals and manufactures	129.3	2.8	112.0	2.0
Ferrous metals	107.2	2.3	102.4	1.8
Nonferrous metals	22.1	0.5	9.6	0.2
Chemicals	198.3	4.2	292.6	5.2
Wood and wood products	38.7	0.8	40.9	0.7
Consumer goods	1,187.8	25.4	1,636.3	29.0
Food	304.2	6.5	364.2	6.5
Manufactured consumer goods	883.6	18.9	1,272.1	22.5
Other	198.4	4.2	226.1	4.0
Unspecified	472.3	10.1	541.7	9.6

a. Because of rounding, components may not add to the totals shown.

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